



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

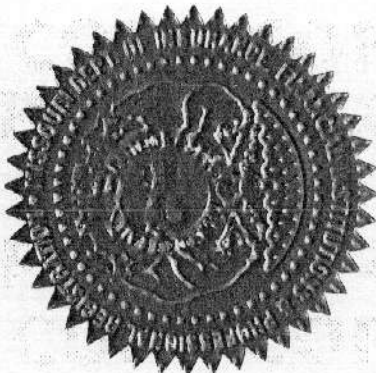
RE: Examination Report of United Healthcare of the Midwest, Inc. as of December 31, 2006

**ORDER**

After full consideration and review of the report of the financial examination of United Healthcare of the Midwest, Inc. for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER United Healthcare of the Midwest, Inc., to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this December 20, 2007.

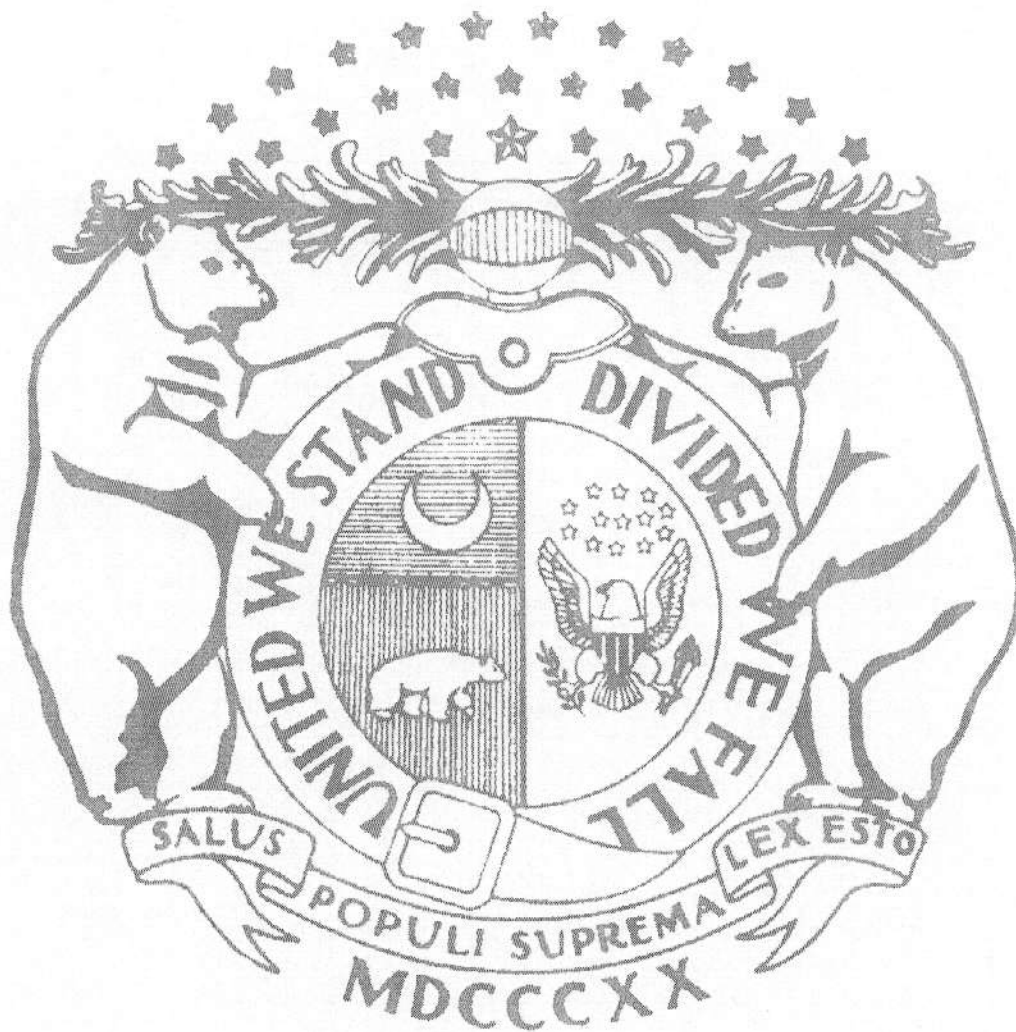


DOUGLAS M. OMMEN, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

**UNITED HEALTHCARE OF THE MIDWEST, INC.**

As Of  
December 31, 2006



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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October 12, 2007  
St. Louis, MO

Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair of the NAIC Financial Condition (E) Committee

Honorable Merle Scheiber, Director  
South Dakota Division of Insurance  
Secretary of the Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director  
Department of Insurance, Financial Institutions and Professional Registration  
301 West High Street, Room 630  
Jefferson City, MO 65101

Dear Sirs:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**UNITED HEALTHCARE OF THE MIDWEST, INC.**

also referred to as the "Company." The Company's administrative office is at 13655 Riverport Drive, Maryland Heights, MO 63043, telephone number (314) 592-7000. This examination began on May 14, 2007, and concluded October 2, 2007.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope association financial examination of United HealthCare of the Midwest, Inc. was as of December 31, 2003, and was conducted by examiners from the state of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2004, to December 31, 2006, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included material transactions and/or events occurring after December 31, 2006.

## Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (the "Department") and statutes of the state of Missouri prevailed.

### COMMENTS PRIOR EXAMINATION

Listed below are the comments and recommendations taken from the prior Report of Financial Examination made as of December 31, 2003. The Company's responses or actions are also described below:

#### *Comment: Transactions with Affiliates-DBP Agreement*

United HealthCare of the Midwest, Inc. paid approximately \$310,000 and \$400,000 (net of reinsurance) in 2002 and 2003 for services provided under an arrangement with its affiliate Dental Benefit Providers, Inc. No formal cost sharing or services agreement existed between the companies defining the terms of this arrangement until August 18, 2004, when the Company filed a Form D with the Department of Insurance, Financial Institutions and Professional Registration (approval pending). UHC-Midwest violated Section 382.195 RSMo (Prohibited transactions, exceptions) by entering into this service arrangement without notifying the Department of Insurance, Financial Institutions and Professional Registration. The Company is directed to ensure that all future arrangements with affiliates meeting the provisions of Section 382.195 RSMo be appropriately filed with the Department of Insurance, Financial Institutions and Professional Registration at least thirty days prior to entering such transactions.

#### *Company Response:*

"The Company filed a Form D with the Department on August 18, 2004. The Company received a letter dated November 1, 2004 that the Department has no intention of disapproving this agreement, including payments made prior to the filing of this agreement."

#### *Current Finding:*

The Company has complied with the prior examination recommendation.

#### *Comment: Reinsurance-Coinsurance Agreement Intermediary Clause*

"It was noted that transactions related to the Company's coinsurance agreement with United HealthCare Insurance Company are settled through intercompany transfers, which flow through the United Group's "treasury department" with United HealthCare Services, Inc. The coinsurance agreement with United HealthCare Insurance Company does not contain an intermediary clause allowing for settlements through a third party. It is recommended that either the settlements be made directly with the reinsurer or that the coinsurance agreement be amended to include a valid intermediary clause."

*Company Response:*

"In the Management Agreement that the Company has with United HealthCare Services, Inc. (UHS), it allows UHS to manage the Company's treasury function. This concept was not duplicated in the Coinsurance Agreement and as a result no further action is required."

*Current Finding:*

The Company's Management Agreement with United HealthCare Services, Inc. appears to allow United HealthCare Services, Inc. to manage the Company's treasury function.

## **HISTORY**

### **General**

On February 26, 1985, the Company incorporated as Sanus Health Plan, Inc. in the state of Missouri. On July 23, 1985, the Company received a certificate of authority to operate as a Health Maintenance Organization under Sections 354.400 to 354.550 RSMo (Health Maintenance Organizations). The Company began operations on August 1, 1985 under the individual practice association form of health plan. On October 8, 1985, the Company became a federally qualified health maintenance organization. The Company relinquished its federally qualified status in March 1997.

On January 3, 1995, the Company became a third tier subsidiary of UnitedHealth Group Inc. On October 1, 1996, Physicians Health Plan of Greater St. Louis, Inc., a subsidiary of UnitedHealth Group Inc., merged with the Company. The Company, the surviving entity, changed its name to United HealthCare of the Midwest, Inc.

On April 1, 1998, United HealthCare Services, Inc. became the Company's immediate parent. UnitedHealth Group Inc. directly owns United Healthcare Services, Inc.

On October 30, 1998, United Healthcare, Inc. was incorporated in Delaware as a wholly owned subsidiary of UnitedHealth Group Inc. On January 1, 2000, UnitedHealth Group Inc. contributed its share of common stock of United Healthcare, Inc. to United HealthCare Services, Inc.

On June 30, 2000, United HealthCare Services, Inc. contributed its ownership interest in United HealthCare of the Midwest, Inc., along with its ownership interests in 23 other HMO subsidiaries, to United Healthcare, Inc.

### **Capital Stock**

At December 31, 2006, the Company was authorized to issue 100 shares of common capital stock with a par value of \$1.00 per share. One share was issued and outstanding at December 31, 2006 for a balance of \$1.00 in the Company's capital account.

## Dividends

The Company has declared and paid dividends to shareholders as follows:

| <u>Year</u>   | <u>Amount</u>        |
|---------------|----------------------|
| Prior to 2004 | \$89,680,726         |
| 2004          | 50,000,000           |
| 2005          | 50,000,000           |
| 2006          | <u>50,000,000</u>    |
| Total         | <u>\$239,680,726</u> |

## Management

In accordance with the Articles of Incorporation and Bylaws, the Company's board of directors consisted of three members at December 31, 2006. Directors elected and serving as of December 31, 2006 were as follows:

| <u>Name and Address</u>             | <u>Affiliation</u>  |
|-------------------------------------|---|
| Steven C. Walli<br>Chesterfield, MO | Chairman, President and CEO<br>United HealthCare of the Midwest |
| Kenneth J. Fasola<br>Richfield, OH  | Executive<br>United HealthCare of the Midwest                   |
| Jordan H. Ginsburg<br>St. Louis, MO | Medical Director<br>United HealthCare of the Midwest            |

Officers serving as of December 31, 2006 were as follows:

| <u>Name</u>          | <u>Office</u>                                  |
|----------------------|--|
| Steven C. Walli      | President and CEO                              |
| Robert J. Sheehy     | Executive Vice President                       |
| Donald A. Powers     | Vice President-Finance and Assistant Treasurer |
| David S. Wichmann    | Vice President and Assistant Treasurer         |
| Forrest G. Burke     | Secretary                                      |
| Robert W. Oberrender | Treasurer                                      |
| Juanita B. Luis      | Assistant Secretary                            |
| Timothy G. Caron     | Assistant Secretary                            |
| Mary L. Stanislav    | Assistant Secretary                            |

**Conflict of Interest**

Directors and officers execute conflict of interest disclosure statements on an annual basis. We reviewed the statements for the years under examination and found no material conflicts that had not previously been disclosed to the Board of Directors.

**Corporate Records**

We reviewed the Articles of Incorporation and the Bylaws. There were no amendments to either the Articles of Incorporation or the Bylaws during the examination period.

We reviewed the minutes of the shareholder and board of directors meetings for the examination period. The minutes of the meetings appear to reflect proper approval of the transactions and corporate events for the period under examination.

**Acquisitions, Mergers and Major Corporate Events**

None

**Surplus Debentures**

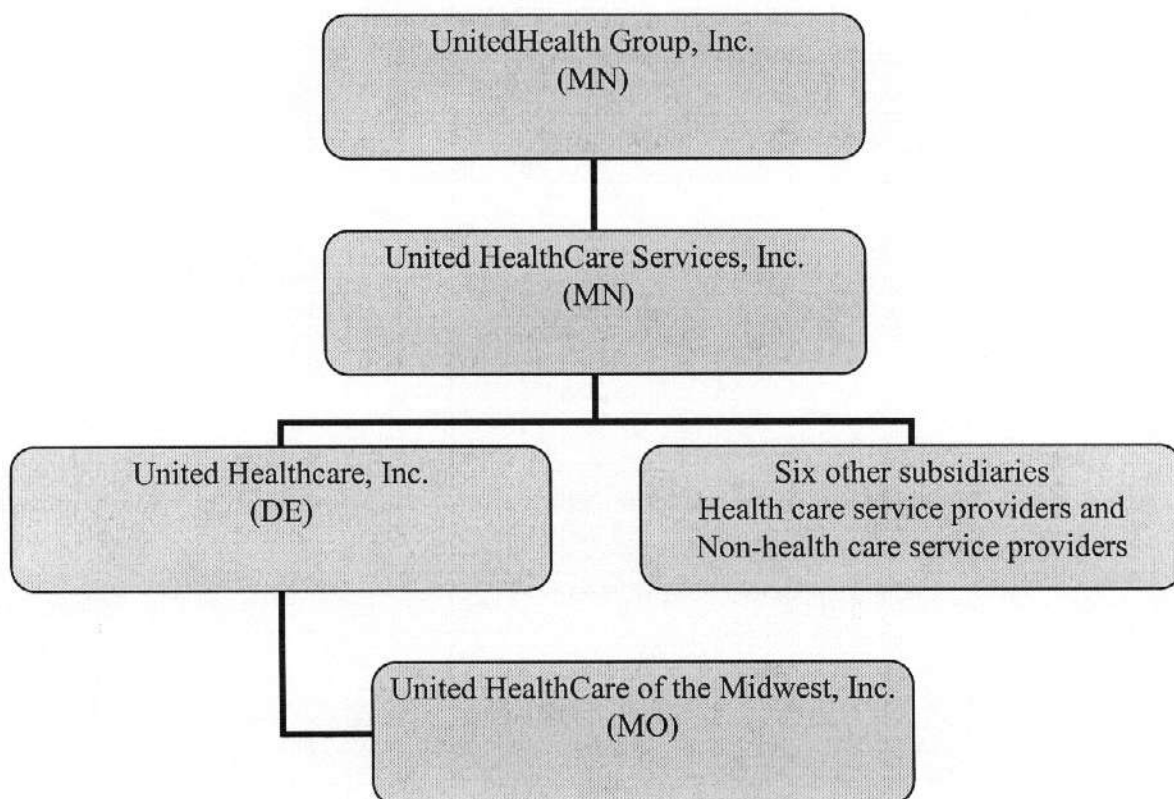
None

**AFFILIATED COMPANIES****Holding Company, Subsidiaries and Affiliates**

The Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person in the insurance holding company system is UnitedHealth Group, Inc. United HealthGroup, Inc., a leading national developer and marketer of managed health care delivery systems, owns and manages a network of HMOs and offers a variety of alternative health care products and services. United HealthGroup, Inc. is a publicly traded company listed on the New York Stock Exchange.

**Organizational Chart**

The following is a portion of the UnitedHealth Group, Inc. organizational chart. Only companies directly related to United HealthCare of the Midwest, Inc., or those with direct management, service or reinsurance agreements are included. All companies are 100% owned by their immediate parent.



### **Affiliated Transactions**

#### Management Agreement

The Company is party to a management agreement with its parent, United HealthCare Services, Inc. Under the agreement, United HealthCare Services, Inc. provides administrative, management, marketing, underwriting and claims processing services. The Company pays a monthly management fee equal to twelve percent of gross premium. The amended and restated agreement, effective December 31, 1999, was submitted to the Department on November 18, 1999. The Department did not disapprove the agreement. Fees paid under the agreement were approximately \$65.6 million in 2006, \$62.5 million in 2005 and \$66.8 million in 2004.

#### Subordinated Revolving Credit Agreement

On December 1, 1999, the Company entered into a \$20 million subordinated revolving credit agreement with UnitedHealth Group Inc., its ultimate parent. The agreement stipulates an interest rate of LIBOR (London Inter Bank Offered Rate) plus .5%. The term is for one year and automatically renews annually unless terminated by either party. No amounts were outstanding under the agreement during the examination period.

#### Tax Sharing Agreement

The Company entered into a tax sharing agreement with its ultimate parent, UnitedHealth Group Inc., effective January 3, 1995. The agreement establishes a formal method for the allocation and payment of federal, state and local income tax liabilities related to the consolidated federal tax returns filed each year. The agreement was submitted to the Department for approval on June 3, 2005. The Department did not disapprove the agreement.

#### Reinsurance Agreement

The Company entered into a coinsurance agreement with United HealthCare Insurance Company, an affiliate, effective July 1, 2003. This agreement is described further in the "Reinsurance" section of this report.

#### Chiropractic Network Services Agreement

As an affiliate of United HealthCare Services, Inc. the Company is party to an agreement among United HealthCare Services, Inc., UnitedHealth Networks, Inc. and ACN Group, Inc., a subsidiary of United HealthCare Services, Inc. Under the agreement, ACN Group, Inc. provides network management and administration of chiropractic and complementary and alternative medicine services. On April 14, 2004, the Department approved an amendment that added utilization review services to the agreement. On August 10, 2005, the Department approved an amendment that extended the rate for complementary and alternative medicine services and added physical, speech and occupational therapy to the agreement.

#### Dental Benefit Providers Service Agreement

The Company is party to an agreement with Dental Benefit Providers, Inc., a subsidiary of United HealthCare Services, Inc. Dental Benefit Providers, Inc. develops, contracts and manages a network of participating providers to provide dental health care services for the Company's enrollees. The agreement became effective October 1, 1999. The Department approved the agreement on November 1, 2004. On June 30, 2005, the Department approved an amendment, effective January 1, 2005, that included a new rate appendix.

#### Mental Health and Substance Abuse Agreement

The Company is party to an agreement with United Behavioral Health, a subsidiary of United HealthCare Services, Inc. Under the agreement, United Behavioral Health provides certain mental health and substance abuse services to the Company's enrollees for which the Company pays a per-member-per-month fee. The agreement was originally effective January 1, 1999. The Department approved amendments related to rates and payments on December 7, 2004 and on March 10, 2006.

#### Vision Services Agreement

The Spectera Master Services Agreement between United HealthCare Services, Inc. and its subsidiary, Spectera, Inc., includes the Company. Under the agreement, Spectera, Inc. provides vision services, including developing, contracting and managing a vision provider network, and products to the Company's enrollees. The Department approved the agreement, effective January 1, 2005, on December 8, 2004.

#### Transplant Services Agreement

The Company is party to a transplant services agreement with United Resource Networks, a division of United HealthCare Services, Inc. Under the agreement, United Resource Networks provides transplant services to the Company's enrollees. Fees are calculated on a per-member-per-month basis. The agreement was amended in 2004 to add specialized networks for cancer and congenital heart disease. The Department approved the amendment on August 30, 2004.

#### OPTUM® Services Agreement

As an affiliate of UnitedHealthcare, Inc., the Company is party to an agreement between UnitedHealthcare, Inc. and OPTUM®, a division of United HealthCare Services, Inc. OPTUM® provides 24-hour telephone nurse line assistance and other services to enrollees of the Company. Fees are calculated on a per-member-per-month basis. On February 7, 2005 the Department approved an amendment to the agreement increasing the fee paid to OPTUM®.

#### OPTUM® Healthy Pregnancy Services Agreement

The Company is also party to a healthy pregnancy services agreement between OPTUM® and UnitedHealthcare, Inc. Under the agreement OPTUM® provides the Company's enrollees with healthy pregnancy services by registered nurses via telephone. Reimbursement for the service is on a per case rate.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a \$25,000,000 blanket crime policy issued to UnitedHealth Group, Inc., the Company's ultimate parent. This coverage meets the NAIC suggested minimum. This coverage exceeds the \$100,000 coverage required by RSMo 354.425 (Bonding of officers who disburse or invest funds—bond requirements).

The Company is also a named insured on policies issued to UnitedHealth Group, Inc. for the following types of coverage: general liability, auto liability, employers liability, professional liability, directors and officers liability, crime, property and workers compensation.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees. Services are provided by employees of United HealthCare Services, Inc., an affiliate. Employees of United HealthCare Services, Inc. receive a range of benefits including: paid vacation, sick leave, educational reimbursement, life and accidental death insurance, medical and dental coverage and short-term and long-term disability.

Eligible employees may participate in a 401(k) plan or an Employee Stock Purchase Plan. United HealthCare Services, Inc. does not offer a pension plan or post-employment benefits to its employees.

## **STATUTORY DEPOSITS**

### **Deposits with the State of Missouri**

The securities on deposit with the Department as of December 31, 2006, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 354.410 RSMo "Certificate issued, when—annual deposit, requirements—capital account, amount, contents."

| <u>Type of Security</u> | <u>Par Value</u>  | <u>Market Value</u> | <u>Statement Value</u> |
|-------------------------|-------------------|---------------------|------------------------|
| US Treasury Note        | <u>\$ 330,000</u> | <u>\$ 320,100</u>   | <u>\$ 325,023</u>      |

### **Deposits with Other States**

The Company is also licensed in the states of Illinois and Kansas. Securities on deposit with the state of Illinois as of December 31, 2006 were as follows:

| <u>Type of Security</u> | <u>Par Value</u>  | <u>Market Value</u> | <u>Statement Value</u> |
|-------------------------|-------------------|---------------------|------------------------|
| FHLB Note               | <u>\$ 310,000</u> | <u>\$ 305,933</u>   | <u>\$ 308,453</u>      |

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

United HealthCare of the Midwest, Inc. is licensed as a health maintenance organization ("HMO") under sections 354.400 to 354.550 RSMo (Health Maintenance Organizations). The Company is also licensed in Kansas and Illinois.

UHC-Midwest, a for-profit HMO, offers its enrollees managed care programs and products through contractual arrangements with health care providers. The Company contracts with physicians, hospitals and other health care providers to deliver medical care to enrollees on a modified fee-for-service or capitated basis.

The Company is organized into two geographic markets, Missouri and Kansas. The Missouri market covers metropolitan St. Louis, Springfield (MO), central Missouri and other rural Missouri counties. The Kansas market covers metropolitan Kansas City, St. Joseph (MO), Wichita (KS) and Topeka (KS).

The Company further segments its markets into lines of business based on the number of eligible employees:

- Small Business-employer groups with 99 or fewer eligible employees
- Key Accounts-employer groups with 100 to 5,000 eligible employees and single-site cases with more than 5,000 eligible employees that are not included in the Public Sector
- Public Sector-employer groups with 1,001 to 5,000 eligible employees and single-site cases with more than 5,000 eligible employees defined as Public Sector

Each of the above segments offers an array of benefit plans under the following products:

- Select-a gatekeeper, in-network HMO product
- Select Plus-a gatekeeper product offering in-and out-of-network benefits
- Choice-an open access, in-network HMO product
- Choice Plus-an open access product offering in- and out-of-network benefits
- Ovations-a Medicare HMO product

Out-of-network benefits are provided through UnitedHealthcare Insurance Company. Ovations is not offered in the Kansas market.

#### **Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders**

The Department has a Market Conduct staff that performs a review of these issues and issues a separate Market Conduct report. On April 9, 2007, the Company agreed to the imposition of an order from the Department Director resulting from a Market Conduct examination initiated in 2000 and completed in 2002. The Market Conduct staff is currently conducting an examination.

## REINSURANCE

### General

Premiums reported during the period under examination were as follows:

|                    | <u>2004</u>           | <u>2005</u>           | <u>2006</u>           |
|--------------------|-----------------------|-----------------------|-----------------------|
| Direct Business    | \$ 796,368,553        | \$ 648,117,422        | \$ 655,928,740        |
| Reinsurance Ceded  | <u>241,129,219</u>    | <u>127,036,130</u>    | <u>101,412,363</u>    |
| Net Premium Income | <u>\$ 555,239,334</u> | <u>\$ 521,081,292</u> | <u>\$ 554,516,377</u> |

### Assumed

The Company did not assume any reinsurance during the period under examination.

### Ceded

#### Coinsurance Agreement

Effective July 1, 2003, the Company entered into a Reinsurance Agreement with United HealthCare Insurance Company superceding all prior reinsurance agreements between the two parties. This agreement was filed with the Department on August 25, 2003 and non-disapproved on September 22, 2003. Under the terms of the agreement, the Company cedes 60% of premiums, benefit costs, provider incentive payments and other expenses incurred after June 30, 2003. The agreement does not cover the Company's Medicare business.

## ACCOUNTS AND RECORDS

### Independent Auditor

The Company's financial statements are audited annually by Deloitte & Touche LLP as part of the United HealthGroup Incorporated's company-wide audit. Workpapers from the 2006 audit were reviewed and included in this examination to the extent deemed appropriate.

### Independent Actuary

Claims related reserves and other actuarial items are reviewed and certified by Allen J. Sorbo, President, Chief Executive Officer and Chief Actuary of United HealthCare Insurance Company, an affiliate of the Company. Consulting actuary Jeffery French, FSA, MAAA, with Milliman USA, was retained by the Department to review the adequacy of reserves and other related liabilities. The consulting actuary found the Company's year end reserves to be adequately stated.

## Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. The Company's information system had adequate controls.

## FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2006 and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. The failure of any column to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

## ASSETS

|  | Assets Current<br>Year | Nonadmitted<br>Assets Current<br>Year | Net Admitted<br>Assets Current<br>Year |
|--|------------------------|---------------------------------------|--|
| Bonds  | \$ 114,353,657         | \$ -                                  | \$ 114,353,657                         |
| Cash, cash equivalents and short-term investments    | 80,303,380             | -                                     | 80,303,380                             |
| Investment income due and accrued                    | 1,834,570              | -                                     | 1,834,570                              |
| Uncollected premiums                                 | 13,371,141             | 1,710,808                             | 11,660,333                             |
| Amounts recoverable from reinsurers                  | 5,905,705              | -                                     | 5,905,705                              |
| Other amounts receivable under reinsurance contracts | 1,106,690              | -                                     | 1,106,690                              |
| Net deferred tax asset                               | 2,323,795              | -                                     | 2,323,795                              |
| Health care and other amounts receivable             | 3,484,932              | 3,484,932                             | -                                      |
| State Income Taxes Receivable                        | 22,034                 | -                                     | 22,034                                 |
| Totals   | <u>\$ 222,705,904</u>  | <u>\$ 5,195,740</u>                   | <u>\$ 217,510,164</u>                  |

## LIABILITIES, SURPLUS AND OTHER FUNDS

|  | Current Year              |
|--|---------------------------|
| Claims unpaid  | \$ 62,087,664             |
| Accrued medical incentive pool and bonus amounts       | 18,911,239                |
| Unpaid claims adjustment expenses                      | 1,409,066                 |
| Aggregate health policy reserves                       | 10,225,477                |
| Aggregate health claim reserves                        | 1,940,821                 |
| Premiums received in advance                           | 1,341,285                 |
| General expenses due or accrued                        | 3,800,406                 |
| Current federal and foreign income tax payable         | 2,194,018                 |
| Ceded reinsurance premiums payable                     | 8,025,175                 |
| Amounts withheld or retained for the account of others | 81,870                    |
| Amounts due to parent; subsidiaries and affiliates     | 2,815,386                 |
| Liability for amounts held under uninsured plans       | <u>33,355,164</u>         |
| Total Liabilities                                      | \$ 146,187,571            |
| <br>Common capital stock                               | <br>\$ 1                  |
| Gross paid in and contributed surplus                  | 76,488,535                |
| Unassigned funds (surplus)                             | <u>(5,165,943)</u>        |
| Surplus as regards policyholders                       | \$ 71,322,593             |
| <br>Total Liabilities and Surplus                      | <br><u>\$ 217,510,164</u> |

## STATEMENT OF INCOME

|  | Current Year                |
|--|-----------------------------|
| Net premium income                                     | \$ 554,516,377              |
| Change in unearned premium reserves                    | <u>(9,107,037)</u>          |
| Total revenues   | \$ 545,409,340              |
| Hospital/medical benefits                              | \$ 440,034,185              |
| Other professional services                            | 212,992                     |
| Prescription drugs                                     | 49,802,714                  |
| Incentive pool, withhold adjustments and bonus amounts | <u>27,444,982</u>           |
| Subtotal hospital and medical                          | \$ 517,494,873              |
| Net reinsurance recoveries                             | <u>77,546,117</u>           |
| Total hospital and medical                             | \$ 439,948,756              |
| Claims adjustment expenses                             | \$ 10,991,978               |
| General administrative expenses                        | 62,816,800                  |
| Increase in life and accident and health reserves      | <u>3,920</u>                |
| Total underwriting deductions                          | \$ 513,761,454              |
| Net underwriting gain                                  | \$ 31,647,886               |
| Net investment income earned                           | \$ 10,107,491               |
| Net realized capital losses                            | <u>(14,462)</u>             |
| Net investment gains                                   | \$ 10,093,029               |
| Miscellaneous other income                             | \$ 1,532                    |
| Net income (pre-tax)                                   | \$ 41,742,447               |
| Federal and foreign income taxes incurred              | <u>10,608,000</u>           |
| Net income   | <u><u>\$ 31,134,447</u></u> |

## **CAPITAL AND SURPLUS**

|  |                        |
|--|------------------------|
|  | Current Year           |
| Capital and surplus: December 31, 2005 | \$ 96,085,437          |
| Net income                             | 31,134,447             |
| Change in net deferred income tax      | (1,157,189)            |
| Change in nonadmitted assets           | (4,740,102)            |
| Dividends to stockholders              | (50,000,000)           |
| Examination changes                    | -                      |
| Net change in capital and surplus      | <u>\$ (24,762,844)</u> |
| Capital and surplus: December 31, 2006 | <u>\$ 71,322,593</u>   |

## **EXAMINATION CHANGES**

None.

## **NOTES TO FINANCIAL STATEMENTS**

None.

## **GENERAL COMMENTS OR RECOMMENDATIONS**

None.

## **SUBSEQUENT EVENTS**

On August 8, 2007, the Department approved an extraordinary dividend for \$28,700,000 to be paid by August 30, 2007.


## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of United HealthCare of the Midwest, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Michael Gruner, AFE, CPA, and David Schaper, examiners for the Department of Insurance, Financial Institutions and Professional Registration participated in this examination.

## VERIFICATION

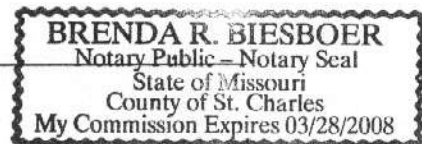
State of Missouri )  
 ) ss  
City of St. Louis )

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Thomas J. Cunningham, CPA, CFE  
Examiner-in-Charge  
Department of Insurance, Financial Institutions  
and Professional Registration

Sworn to and subscribed before me this 4<sup>th</sup> day of October 2007.  
My commission expires: March 28, 2008

Brenda R. Biesboer  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Christiana Dugopolski, CPA, CFE  
Audit Manager, St. Louis  
Department of Insurance, Financial Institutions  
and Professional Registration